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TRAFFIC MANAGER

R. D. SHORE
TREASURER

R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C.

January 12, 1933.

To the Stockholders of

R. J. REYNOLDS TOBACCO COMPANY:

There is submitted herewith the Financial Statement of your Company at December 31, 1932.

This statement is being sent to more than 35,000 stockholders—a figure which indicates that a trend commented on a year ago continues and that more and more investors are from time to time becoming interested in the Company. During the year the increase in the number of stockholders was more than 16%.

The form of the Earnings Report as embraced in the accompanying statement is somewhat different from that used heretofore and has been adopted at the suggestion of, and out of our desire to cooperate with, the New York Stock Exchange in its program for standardization, as far as possible, of reports of listed companies.

Net Earnings for the year 1932 amounted to $33,674,800.28, or $3.36 per share, compared with $36,396,816.81 for 1931, or $3.63 per share. Cash dividends of $30,000,000.00, or $3.00 per share, were paid in 1932 as in each of the past several years.

Net Current Assets at the close of the year aggregated $132,611,884.45 as compared with $128,242,251.20 at December 31, 1931. Cash and Government securities on hand at December 31, 1932, totalled $60,340,554.71 as compared with $44,474,270.87 a year before.

Inventories of leaf tobacco, while considerably lower in total book value than at the close of the preceding year, actually represent a larger amount of tobaccos on hand and are exceptionally well-balanced from the standpoint of quality and grade, fully meeting the Company's exacting requirements.

As noted on the statement, the Company has an investment in shares of its own stock somewhat larger than a year ago, which produces a very attractive yield as compared to what could be obtained from any equivalent high-grade security in which surplus cash funds could be placed. No part of the earnings shown in the Treasurer's report for the year was derived from sale of stock and, as formerly, the income from such stock is included in dividends on investments.

The enormous value of the Company's well-known brands—CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco, and all of the others—is carried in the balance sheet, as formerly, at the nominal sum of $1.00.

Reserves as shown in the accompanying statement aggregate $8,149,445.73 as compared with $2,403,710.79 at December 31, 1931. Of that increase, $4,000,000.00 represents the excess of the reservation in 1932 for advertising over actual expenditures made therefor. While continuing to expend very substantial sums in 1932 in keeping its products well presented before the public throughout the year in various media, the Company did not consider that conditions during that year warranted the expectation of fullest returns from heavy additional advertising expenditures. Accordingly, this $4,000,000.00 of advertising accumulation charged against 1932 earnings is carried forward as a reserve, and represents an additional amount available for advertising in 1933. The item of Reserves also includes an amount to adjust, in accordance with the Company's usual policy in cases of price reductions, wholesalers' inventories of CAMEL Cigarettes to basis of new price recently announced.

There has never been any reduction from the war-peak rates of Federal taxes on tobacco and cigarettes, and your Company continues to play an important part in providing revenues for Government. To say nothing of substantial payments on account of property taxes, Federal income taxes, State taxes, and other local taxes, the Federal excise tax of $3.00 per thousand on cigarettes represents over 56% of our net selling price of CAMEL Cigarettes. When translated into terms of retail prices on the basis of those now prevailing, this tax of 6c per package of 20 cigarettes is almost one-half of that retail price, leaving the other half to cover all of our costs and profits and all of the expenses and profits of the wholesalers and of the retailers. Certainly, whenever Governmental revenues will permit it, the matter of relief from such high taxes on the products of our industry should have consideration at the hands of the taxing authorities.

Respectfully yours,

S. Clay Williams,
President.